



City of Austin

Neighborhood Housing and Community Development

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January 29, 2008

The John D. and Catherine T. MacArthur
Foundation
140 S. Dearborn Avenue
Chicago, IL. 60603-5285

Dear Foundation Representative:

The City of Austin submits this Letter of Intent with attachments to compete for a “Window of Opportunity” MacArthur Housing Preservation Award for state and local housing leaders.

I. OVERVIEW

The City of Austin is applying for \$5,000,000 in combined grant and Program-Related Investment (PRI)-loan funds to be administered by the City of Austin’s Neighborhood Housing and Community Development (NHCD) Department. The grant will be disbursed over a three-year period: October 2008 thru September 2011. The loan funds will be disbursed over a five-year period: October 2008 thru September 2013.

The purpose of the funds is to scale up our current preservation initiatives. The City of Austin will use \$1 million in grant funds to collect and analyze regional data, conduct ongoing data tracking, establish a data clearinghouse, and administer the PRI-preservation fund. The remaining funds (\$4 million) will be used to create a "rapid strike preservation fund" that preserves affordable housing through acquisition and helps leverage additional funds.

The funds will be targeted towards those neighborhoods where multifamily units are at risk of losing affordable housing units through condominium conversion, demolition, and rehabilitation or redevelopment. The city’s current preservation policies focus on the housing affordability for households at or below 80 percent of the 2007 Austin Area Median Family Income (MFI) (about \$56,900 for a family of four as determined by the U.S. Housing and Urban Development [HUD] Department).

This initiative will address the barriers to affordable housing and the opportunities for providing both research and funding to secure affordable housing units. The major challenges encountered in pursuing the preservation of affordable housing are related to Austin’s economic growth and rapid development. Austin’s population growth is 3.5 times the national average and the population has doubled in the past twenty years. As a result Austin is one of the most advantageous housing and rental markets in the nation. With the second highest median sales price in the state, homes sell within two months while in other areas home may remain on the market for six months or more.

Similar to other metropolitan areas, the majority of affordable housing in Austin is made up of privately owned housing—both multifamily and single family. Yet the vast majority of these multifamily units are aging and rapidly being redeveloped at market rates. Currently over 60 percent of the estimated 142,000 multifamily units and duplexes within the city limits were built in the 1980s or earlier and the majority of these older units are made up of small- and medium-sized apartment buildings with two bedrooms or less. In addition data from HUD’s Office of Affordable Housing

Preservation and the National Housing Trust indicate the potential expiration of project-based Section 8 units.

The redevelopment and rehabilitation of older rental properties in its urban core make Austin's rental rates the highest in the state. In 2006 over 47 percent of Austin renters paid over 30 percent of their gross incomes for rent. At the same time households earning less than \$35,000 increased by 16 percent between 2000 and 2006.

With an early warning system we will be able to identify opportunities to preserve affordable housing that otherwise would be lost through redevelopment, tear down, or condominium conversion. The availability of PRI funding will prove to be a necessary source of funds for non-profit builders and developers to compete in the market and purchase these properties in a shorter period of time.

Our vision of success is a comprehensive preservation policy that is acknowledged and well received by local, state, and national leaders. The City will measure this success with outcome-oriented results -- the number of units preserved through our data collection efforts and loan activities. It is estimated that approximately 1,000 units will be preserved within the next five to ten years.

II. BACKGROUND

NHCD is the City's policy maker for reasonably priced housing and community development. The department is designated by the Austin City Council as the single point of contact with HUD and lead agency for the administration of Community Development Block Grants (CDBG) and HOME Partnership, American Dream Down Payment Initiatives (ADDI), Section 108, and other federal assistance. NHCD offers a range of housing services, including homeowner rehabilitation services, emergency home repair, rental housing development assistance, down payment assistance, and financial literacy for homeowners and renters. Working through the City's non-profit corporation, the Austin Housing Finance Corporation (AHFC), NHCD finances the construction of homes and implements the City's housing programs through bond issuance.

In fiscal year 2005 NHCD/AHFC programs assisted 45,835 eligible households through housing, community and small business development services. This number grew by almost 11 percent in FY 2006 when the department assisted 50,706 households. Data collected for fiscal year 2007 reflects that NHCD provided services to 59,267 households; an increase of almost 17 percent. The increase in households benefiting from City services is a direct reflection of the demand in the community. Assistance is provided to low-to-moderate income populations earning 80 percent or below of MFI and target neighborhoods with 51 percent of residents earning 80 percent or below of MFI. This criterion primarily focuses NHCD's efforts in East, Southeast, and Northeast Austin on multi-family and single-family residents.

Some of the most notable accomplishments of the City of Austin are its recent Community Land Trust initiative, established Housing Trust Fund, and Homestead Preservation District. The City's nationally recognized S.M.A.R.T. Housing™ (Safe, Mixed-Income, Accessible, Reasonably Priced and Transit-Oriented) program provides development fee waivers to projects that meet all S.M.A.R.T. Housing™ standards, including at least 10 percent of the units meeting the "reasonably priced" standard by serving households at or below 80 percent of MFI. In addition, the City provides faster subdivision and site plan reviews, expedited zoning, and advocacy through the course of the development process. HUD recognized the City of Austin's S.M.A.R.T. Housing™ Policy as an exemplary tool to reduce regulatory barriers to affordable housing with a Robert L. Woodson, Jr. Award.

The National Community Development Association awarded Austin the National Award of Excellence (The Terrance R. Duvernay HOME Program Award) for Lyons Gardens, a model 54-unit senior housing community where residents spend no more than 30 percent of their incomes for rent and utilities. In 2006 the AHFC, the City of Austin, and Campbell-Hogue and Associates built the

Villas on Sixth Street development which is Austin's first affordable, urban in-fill development in the Central Business District. The \$16 million project is reserved for families with household earnings of 40 percent and 50 percent or less of median family income and serves primarily families.

III. PROPOSED USE OF FUNDS

The City proposes to use \$375,000 in grant funds for data gathering, research, report writing, designing and setting up an early warning system, and salary costs over three years. A total of \$4 million in PRI funds would establish a Rapid Strike Preservation Fund for rapid acquisition with an additional \$625,000 in grant funds to cover personnel and direct costs incurred in servicing the fund over five years.

Early Warning System

Data gathering is the first step in developing a comprehensive preservation effort. Funds for this activity will be used to initiate relevant housing research on the preservation of affordable housing, create a data clearinghouse, and establish an early warning system. An early warning system would develop an inventory of rental housing by type and degree of risk and to serve as an information source to policy makers and the community. A regional component could give us an understanding of types of housing and energy efficiency for twenty to thirty years out in the metropolitan region as well as in unincorporated areas.

Funding for data gathering activities total \$375,000 over three years and include personnel and direct costs, market studies, and consultancy fees. The City anticipates that the information system once established will be supported by City funds or through an agreement with local non-profit organizations. The City is also currently in discussion with the Center for Sustainable Development at the University of Texas at Austin's Regional Planning and Community Development Department and non-profit housing organizations to conduct research activities. The designing of an early warning system will require a third-party consultant.

“Rapid Strike” Preservation Fund

To substantially leverage the MacArthur PRI funds and to scale up this initiative, the City of Austin and area housing partners plan to create a Rapid Strike Preservation Fund that will raise over \$50 million, a 10:1 match with the PRI funding. Our goal is to preserve over 1,000 units that would otherwise be lost to the market, torn down, or converted to condos. Administrative costs and direct costs have been included in the grant petition totaling approximately \$625,000. The fund will allow nonprofit partners to compete on a level playing field with conventional buyers for the acquisition of older multifamily properties. Nonprofit housing providers will have the capacity with this fund to make competitive offers on older properties that would otherwise be lost. Because our multifamily market is so speculative and hot, with multiple offers on every deal, purchase contracts are generally only 60 days. Nonprofits must be able to demonstrate to sellers that they have the money to compete or else their offers are ignored. Matching money to create the “rapid strike” preservation fund will come from a variety of sources:

City housing funds

The City now has \$55 million in General Obligation (GO) bonds passed by Austin voters in 2006 for affordable housing (approximately \$33 million for rental housing). The GO bond funds will be spent over the next seven years, however, the funds can be invested more quickly with Council approval and if nonprofits have the capacity. If funds can be invested wisely and promptly then the opportunity exists to go back to the voters for a future bond issue. This is a great opportunity for the MacArthur PRI to create leverage and scale. In addition to bond funds, the City manages HOME, CDBG, and a local Housing Trust Funds that may make sense to invest in certain projects.

Nonprofit partner match funding for specific projects:

Austin housing nonprofits are creative and resourceful at attracting private and public funding for projects. Typical projects include grants and low interest loans from the Federal Home Loan Bank, NeighborWorks America, Enterprise Foundation, numerous local and regional foundations, and individual donors. For example, Foundation Communities has completed six recent multifamily projects and typically raised over \$1 million from private sources for each. The State also has some HOME and Housing Trust Fund dollars for certain preservation projects.

Other local and regional foundation PRI funds

The MacArthur PRI funding creates a fantastic opportunity to become a model and leverage for other local and regional foundations. With help from MacArthur, the City believes that nonprofit housing organizations would be able to leverage PRI investments from the Austin Community Foundation, Meadows Foundation, Michael and Susan Dell Foundation, Topfer Family Foundation, and others. Foundation Communities is presently in conversation with three bank foundations to create a PRI loan pool of over \$7 million this spring.

Bank financing

Most of the conventional lenders in Austin are anxious to make interim financing available for nonprofit housing preservation projects. The City and its partners will work with lenders to establish a way for them to participate in the Rapid Strike Preservation Fund, and bridge additional funding such as nonprofit grants that take longer to secure.

Tax credits and mortgage bonds

Some preservation projects will work with tax credits and/or mortgage bond funding – if the interim rapid acquisition funding is available. For example, the Texas State Affordable Housing Corporation, has a set aside of private activity bonds/4% credits for preservation projects, however it takes six months from start to finish to close the funds – too slow for our market. AHFC can issue exempt bonds, although it also takes longer than 60 days to close funding.

Property tax exemption

In Texas, nonprofit housing providers are able to secure a 50-percent property tax exemption on many older apartment complexes. This can be a powerful preservation tool on the right property. Similarly, property owned by AHFC is 100-percent exempt. These tax exemption tools are part of the City's toolbox for financing projects with this fund.

Several key preliminary design ideas for the Rapid Strike Preservation Fund are: a) The *flexibility* to work with large sophisticated nonprofit housing providers, as well as younger organizations that have demonstrated some success, and completing a larger project will build their capacity; b) *Organizational funding*, as well as project funding, to make organizational loans that can be accessed more quickly than underwriting specific projects. Organizational funding may require a match from the nonprofit partner. c) *Target properties* that are already modestly affordable because of their age or management issues, but are ripe for redevelopment (tear down, condo conversion or 'value add') because of their location. Target properties will likely need renovation work, but the City will not recommend acquiring properties that require gut rehabilitation.

The Budget

The City requests \$5,000,000 in combination grant and loan funding. The city currently has no funds allocated to a preservation fund or towards the collection of data regarding the preservation of affordable housing. The preliminary budget reflects the cost of data collection and includes personnel costs, computer needs, and administrative overhead. The budget for these research activities is attached to this Letter of Intent. Without grant and PRI funding, these activities would not be possible. In FY09 the City will lose \$429,884 in CDBG, HOME, and ADDI funding, thus the MacArthur Foundation preservation funds would be beneficial to the department's mission.

IV. KEY RELATIONSHIPS AND GOVERNANCE

As the single point of contact with HUD for the City of Austin, NHCD works closely with other jurisdictional housing authorities, namely the Housing Authority of the City of Austin (HACA) which oversees the Section 8 voucher program and the Travis County Health and Human Services and Veterans Service (HHS/VS) serving unincorporated areas.

NHCD was also the City's primary contact with the Affordable Housing Incentives Task Force in 2006. As part of the MacArthur Housing Preservation initiative the City of Austin is partnering with Envision Central Texas, the Community Partnership for the Homeless, Foundation Communities, HousingWorks Austin, Mary Lee Foundation, The University of Texas at Austin's Center for Sustainable Development and Community Development Clinic, the Community Action Network, Wachovia Foundation, HACA, HHS/VS, and other stakeholders.

The NHCD department will oversee and coordinate the preservation activities proposed here with assistance from the NHCD Housing Production and Planning departments. Key individuals who will be assisting in the administration and oversight of the grant are Paul Hilgers, NHCD Executive Director; Margaret Shaw, NHCD Deputy Director; Gary Adrian, AHFC Financial Consultant; and Pamela Rogers, NHCD Planning Manager.

The steps outlined here will make possible a more comprehensive preservation policy, and we look forward to your favorable response. For more information, please contact me at paul.hilgers@ci.austin.tx.us or at (512) 974-3108.

Sincerely,



Paul Hilgers
Executive Director
Neighborhood Housing and Community Development

Attachments:

- a. Proposed MacArthur Housing Preservation Budget
- b. Biographies of Personnel
- c. Consolidated Annual Performance and Evaluation Report (CAPER) FY 2006-07
- d. City of Austin's Neighborhood Housing and Community Development Preservation of Affordable Housing in Austin Study Draft
- e. Foundation Communities Letter of Support
- f. HousingWorks Austin Letter of Support
- g. Austin Affordable Housing Corporation, Housing Authority of the City of Austin, Letter of Support
- h. Wachovia Bank-Central Texas Letter of Support
- i. Envision Central Texas Letter of Support
- j. Community Partnership for the Homeless Letter of Support
- k. University of Texas at Austin's Center for Sustainable Development Letter of Support
- l. Mary Lee Foundation Letter of Support
- m. Travis County Health and Human Services & Veterans' Service

Attachment A

City of Austin
 Neighborhood Housing and Community Development (NHCD)
 MacArthur Foundation 2008 Awards for State and
 Local Housing Preservation Leaders

**PROPOSED PRELIMINARY BUDGET FOR GRANT AND PRI-LOAN REQUEST OF
 THE CITY OF AUSTIN (JANUARY 2008)**

Category	Total
TOTAL PRESERVATION GRANT FUNDING	\$1,000,000
<u>A) Early Warning System Administrative Costs (three years)</u>	
Year One -- Personnel, direct costs, market studies, consultancy fees	\$225,000
Year Two -- Personnel, direct costs, market studies, consultancy fees	\$75,000
Year Three -- Personnel, direct costs, market studies, consultancy fees	<u>\$75,000</u>
Total Expenditures for Early Warning System Administration	\$375,000
<u>B) Rapid Strike Preservation Fund Administrative Costs (five years)</u>	
Personnel and direct costs (five years)	<u>\$625,000</u>
Total Expenditures for Fund Administration	\$625,000
TOTAL MACARTHUR PROGRAM-RELATED INVESTMENT (PRI) FUNDING	\$4,000,000
<u>Rapid Strike Preservation Fund</u>	
Financing for Acquisition	<u>\$4,000,000</u>
Total PRI Funding	\$4,000,000
Sum Total of Combined Grant and PRI Funding	<u>\$5,000,000</u>

Attachment B

Biographies of Key Personnel Working on the MacArthur Foundation Housing Preservation Initiative

Paul Hilgers, Executive Director and Community Development Officer, Neighborhood Housing and Community Development Department, City of Austin joined the City of Austin in August 1997 as Director of the Neighborhood Housing and Community Development Office (NHCD). NHCD serves as the administrator of U. S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funding allocation for the City of Austin as well as carries out a variety of programs related to affordable housing and economic development. Paul holds a B.A. degree in Political Science from Whittier College and a Masters of Public Affairs from the LBJ School of Public Affairs. He has served as Coordinator of Employment and Training, Governor's Office of Economic Development under Governor Mark White, and as District Director of Congressman J. J. Pickle's office. Before joining the City in this latest capacity, he served as Federal Relations Coordinator and Customer/Community Relations Representative with the Lower Colorado River Authority. He is married to Nancy, another native Austinite, and has two children, John and Sydney

As Deputy Director of the City of Austin's Neighborhood Housing and Community Development Office, **Margaret Shaw** oversees approximately \$20 million in annual Federal and local funds to create affordable housing and job opportunities for low- and moderate-income residents of Austin, Texas. Before returning to the City, Shaw worked with private developer, Tekoa Partners, creating affordable multifamily rental both in Austin and along the Texas border. Her experience in the private sector gave her the opportunity to create successful and productive partnerships with area non-profits to reach deeper levels of affordability. It also highlighted the challenges that developers face in creating and maintaining affordable housing. As a senior aide to HUD Secretary, Henry Cisneros, she developed a broad perspective on how national housing policy and budgets affect local communities. In her role with the City, Shaw blends her practical, political, and policy expertise to help create and preserve affordability in one of the fastest growing communities in the country. She graduated from Smith College and received her Masters in Public Administration from the University of Texas at Austin.

Gary Adrian, Financial Consultant, Austin Housing Finance Corporation, has managed a gap-financing loan program that provides up to \$9M annually for the development of affordable rental housing in the City of Austin. He has experience in facilitating developers, investors and non-profit organizations in securing public and private sector funding for affordable housing. His expertise is in conducting real estate financial analyses and underwriting, and managing multiple entities throughout the project development process to ensure that public and private funds are utilized in accordance with local, State and Federal rules and regulations. A former planner, Gary has over twenty-five years of experience with the City of Austin in managing and implementing real estate development projects through innovative financing to leverage private funds with limited public resources including Low-Income Housing Tax Credits, Tax-Exempt Bonds, CDBG, and HOME funds.

Pamela Rogers, Ph.D., Planning Manager, Neighborhood Housing and Community Development, City of Austin, manages the planning and grants administration department for NHCD in the City of Austin. She has experience in facilitating civic engagement among city representatives, developers, investors and non-profit housing organizations in several public and

private sector initiatives for affordable housing. Her expertise is in research and development, data analysis and report writing, and the project management of large projects in accordance with local, state and federal rules and regulations. Pamela holds a Ph.D. degree in Sociology from The University of Texas at Austin and a Masters of Public Affairs from the LBJ School of Public Affairs. She has served as Program Director of the Texas Skill Standards Board, Office of the Governor. Before joining the City of Austin in 2007, she was a visiting assistant professor at Tulane University (2006-07) in New Orleans, Louisiana.